

VZCZCXRO4100
PP RUEHCN RUEHGH
DE RUEHHK #2466/01 2641016
ZNR UUUUU ZZH
P 211016Z SEP 07
FM AMCONSUL HONG KONG
TO RUEHC/SECSTATE WASHDC PRIORITY 2997
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 1469
RUEHCN/AMCONSUL CHENGDU PRIORITY 1192
RUEHGX/AMCONSUL GUANGZHOU PRIORITY 0875
RUEHGH/AMCONSUL SHANGHAI PRIORITY
RUEHSH/AMCONSUL SHENYANG PRIORITY 3644
RUEHIN/AIT TAIPEI PRIORITY 4687
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY
RUEAUSA/DEPT OF HHS WASHINGTON DC PRIORITY
RHMFIUU/DEPT OF HOMELAND SECURITY WASHINGTON DC PRIORITY
RUEAORC/US CUSTOMS AND BORDER PROTECTION WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 03 HONG KONG 002466

SIPDIS

SENSITIVE
SIPDIS

PASS TO EAP/CM AND EEB/TPP/ABT PAUL SAXTON
STATE PASS TO USTR CHINA OFFICE/TIM WINELAND
STATE PASS TO CPSC LAURIE HOPKINS/INTL PROGRAMS

E.O. 12958: N/A
TAGS: [EAGR](#) [ECON](#) [ETRD](#) [PREL](#) [TBIO](#) [HK](#) [CH](#)
SUBJECT: HONG KONG IS WORKING TO IMPROVE CHINA PRODUCT
SAFETY

REF: A. STATE 114788
[1](#)B. HONG KONG 2217
[1](#)C. HONG KONG 2414

[1](#)1. (SBU) Summary: A series of recalls of potentially dangerous "Made in China" toys and defective consumer goods has resulted in intense international scrutiny of Hong Kong-invested China industries. Hong Kong companies operate some 80,000 production facilities in mainland China, employing approximately 10 million Chinese. Hong Kong toy companies are acutely aware of customer concerns and media reports regarding China's product safety record. Toy association leaders have publicly affirmed their commitment to "full compliance" with international toy manufacturing standards, are urging their members to "double-triple" check each of their manufacturing steps, and to add quality inspection manpower and more stringent control systems to cover all aspects of their operations, particularly subcontracting (reftel B/C). They also have highlighted the toy industry's close coordination with the Hong Kong and mainland China governments, and their cooperation with industry associations in Europe and the U.S. The Hong Kong's Consumer Council reviewed existing product safety legislation and determined it adequate, and is working with the Customs and Excise Bureau to enforce product safety regulations. The Hong Kong Trade Development Council (TDC) is working locally to emphasize the need for Hong Kong industries to comply with international product safety standards and internationally to assure trade partners that Hong Kong industries can and will play a positive role in improving compliance with product safety standards.

[1](#)2. (SBU) On September 18, TDC and Hong Kong's Toy Manufacturing Associations sponsored a Product Safety Conference attended by approximately 1000 Hong Kong and mainland China business representatives. During the conference, Hong Kong toy manufacturers stressed that they are committed, in both public relations and practice, to producing toys in compliance with international standards. They will implement expanded testing and certification requirements to ensure product safety; they reminded buyers, however, that this will entail higher costs. Hong Kong and Chinese manufacturers advocate "shared responsibility"

throughout the production chain, but are skeptical that they will be met half-way by U.S. brands and retailers, buyers who have been historically unyielding on price. End Summary.

Hong Kong Government

13. (U) Hong Kong Consumer Council Officials told Econoffs that Hong Kong has two ordinances related to consumer product safety: 1) the Consumer Goods Safety Ordinance 2) the Toys and Children Protection Safety Ordinance. These ordinances require that Hong Kong manufacturers and importers must comply with internationally accepted product safety standards in order to bring their goods into the Hong Kong market. In light of the recent series of product recalls, the Consumer Council reviewed these two pieces of legislation and determined that they are in line with international practices and provide adequate enforcement powers. The Consumer Council receives public complaints and queries, conducts research and educates the public on product safety issues. It also works with Hong Kong Customs, which has the authority to investigate suppliers and retailers and conduct tests of products, to ensure consumer product safety standards are met. If consumer goods are deemed unsafe, the Consumer Council and Hong Kong Customs will demand a product recall.

14. (SBU) Hong Kong Trade Development Council (TDC) is actively promoting the positive role that Hong Kong industries can and do play in ensuring that products made in mainland China meet international standards and are safe. A high-level TDC delegation will travel to the United States at the end of September, visiting numerous cities including San Francisco, Chicago, New York and Washington, and would make

HONG KONG 00002466 002 OF 003

it a point to discuss product safety issues with U.S. business and government officials. Hong Kong TDC has also organized meetings between USG officials and Hong Kong manufacturers (reftel C) as well as sponsored conferences in Hong Kong to strongly urge Hong Kong businesses to comply with international standards and to focus on quality assurance.

Product Safety Conference

15. (SBU) On September 18, TDC hosted a Product Safety Conference and brought in Brenda Jacobs, trade attorney at Sidley Austin and former trade agreement counsel at the U.S. Department of Commerce, and Alan Schoen, risk consultant at Marsh and former Director of Compliance for the Consumer Product Safety Commission (CPSC) to explain the U.S. import safety environment, including actions resulting from the White House Import Safety Working Group and the U.S.-Sino Product Safety Summit. Jacobs and Schoen explained the likelihood of new legislation which could ban certain products, require third-party inspection, and increase civil and criminal penalties for violations. They predicted expanding U.S. certification requirements, and increasing buyer demands, from detailed purchase orders to indemnification provisions in contracts. Jacobs proposed that manufacturers "turn the negative news into positive action" by conducting an internal review of quality systems, drafting a written compliance manual, expanding in-house training and using third-party inspection reports as a marketing tool. She also said, "now is the time to push back on U.S. retailers" on price, citing a recent Associated Press survey indicating that a majority of Americans acknowledge that their own consumer demand for the lowest price is part of the problem. "Now is the time to have these discussions, as the environment is right," said Jacobs. Schoen also predicted that the CPSC will get an increase in resources, funds and staff, which will be accompanied by strengthening of outdated safety standards.

16. (SBU) Carter Keithley, President of the Toy Industry

Association, USA (TIA) addressed the conference via video and described the "perfect storm" created by consumer product quality issues, U.S. presidential election politics, and a focus on an under-funded and under-staffed CPSC. TIA's analysis of events, in consultation with its members, concluded that the industry's toy safety standards were excellent, but the toy inspection process had "failed the industry." TIA implemented a program to repair the inspection process in the near term and strengthen the inspection framework over the long term. To get through the holiday season, the industry is conducting exhaustive testing on products to reassure compliance, coupled with extensive outreach to reassure the public. Looking toward 2008, TIA is developing standardized testing procedures, establishing lab testing criteria, and encouraging the USG to require inspection of all toys in the U.S. (Note: This message was well-received by the conference participants, as they sensed they had an advocate in the U.S. looking out for the industry's interests. End note.)

17. (SBU) An industry panel featuring four key toy company executives (TS Wong, Honorary President of The Hong Kong Toys Council and The Hong Kong Manufacturers' Association; Lawrence Chan, Chairman, The Hong Kong Toys Council; CK Yeung, Executive Vice President, The Hong Kong Toy Manufacturers' Association; and Vincent Tam, Executive Committee Member) focused on actions taken to date in response to global product safety concerns. The group highlighted the industry's close contact and communication with the Hong Kong and mainland China governments, and their coordination with industry associations in Europe and the U.S. Each emphasized that the industry was very clear about the problem, and is taking measures to increase quality control and testing to address that problem. As industry associations, their primary role has been information

HONG KONG 00002466 003 OF 003

dissemination and member training, both critical in addressing the constant changes in regulations and processes by governments worldwide. The group told their peers that they should take quality control very seriously.

18. (SBU) Open discussion between presenters and the audience included topics such as:

- What manufacturers must do to improve the "Made in China" label;
- What to tell U.S. retailers, product brands and buyers about price increases associated with increased testing and quality assurance practices;
- Is the USG also lecturing U.S. importers and retailers about product safety (Note: this question was asked in impassioned Cantonese with much encouragement from fellow attendees. End note.);
- How can manufacturers handle unsafe product designs;
- How can manufacturers eliminate problems in the supply chain.

The presenters' responses centered around performing due diligence on suppliers, focusing on quality, meeting international standards and increasing testing. The audience generally agreed that these solutions would cost money.

Third-Party Testing In Hong Kong - A Growth Industry

19. (U) Intertek, A Hong Kong-based product testing company, briefed us on the year-to-date in toy safety -- 247 recalls in the U.S., with 154 (62 percent) involving products imported from mainland China, totaling 33.6 million units. Intertek advocates conducting regular checks and audits on suppliers, examining documentation to ensure validity, randomly selectly and testing raw materials, initiating both pre-production and pre-shipment testing and performing due diligence on finished products. Companies like Intertek can provide these services for a fee. The company is hosting many training seminars in mainland China (Shenzhen and Shanghai).

¶10. (SBU) Modern Testing Services (MTS), invited Econoff to tour their Hong Kong testing laboratory. MTS is a global technical services company, specializing in laboratory testing, product inspections, facility assessment, and training. The \$18 million, 300-person company provides these services to a broad range of companies and industries, including apparel, textile and toys. X-ray and wet chemical testing is available to toy manufacturers (for a fee) to verify product composition and compliance as well as the more traditional torque-tension, flammability, and strength tests are performed. MTS is experiencing growth in the consulting side of its business, where it visits factories i China to conduct quality control audits and traning sessions.

Cunningham